4/990

Department of the Treasury
Internal Revenue Service
Catalog Number 46073X

Publication 4

Student's Guide to Federal Income Tax

For use in preparing
1990 Returns

T22.44/2:

Contents

How Will This Guide Help Me?.....1
Where Do My Tax Dollars Go?.....1
How Is My Tax Figured?.....2
How Do I Pay My Taxes?.....2
Must I File a Return?.....3
What Kinds of Income Are Taxable?.....3
- Pay for Services Performed.....3
- Self-Employment Income.....4
- Investment Income.....4
- Taxable Scholarships and Fellowships.....5
- Other Income.....5

What Can I Deduct On My Return?.....5
How Do I File a Return?.....6
What Tax Records Should I Keep?.....6
When Will I Get My Refund?.....6
What Free Tax Help Is Available?.....6
Sample Tax Forms.....7
- Form W–4.....9
- Form 1040EZ.....10
- Schedule C.....11

How Will This Guide Help Me?

This guide explains the federal income tax laws of particular interest to high school and college students. It will help you decide if income you are receiving (such as wages, tips, interest, or a scholarship or fellowship) is taxable. It will also help you decide if you should have tax taken out of your pay, and if you should file an income tax return.

The rules explained in this guide apply to students who are U.S. citizens and unmarried (single). If you are a foreign student studying in the U.S., you should see Publication 519, *U.S. Tax Guide for Aliens.* You can get a copy of this and other free taxpayer information publications by calling 1–800–TAX–FORM (1–800–829–3676).

Where Do My Tax Dollars Go?

We pay taxes to help our government raise income (called "revenue") to meet its expenses. The revenue raised by the personal income tax, as well as revenue raised by other taxes, such as excise, estate, and gift taxes, is used to provide a wide variety of services to the public. Among these are our national defense, conservation of our natural resources, and public education.

The social security tax pays for old age, survivor, and disability pension payments for you when you become eligible for them. It also pays for basic Medicare insurance coverage. Both employees and employers pay into this fund.

READEX FICHE best copy available

How Is My Tax Figured?

You are responsible for reporting your income to the Internal Revenue Service (IRS) and figuring the tax due on it. You do this by filing an income tax return each year you meet the filing requirements. The IRS provides tax forms and instructions to help you. These forms and instructions are based on the tax laws passed by Congress that are contained in the Internal Revenue Code.

Taxable income. Wages, tips, and other fees you get for work you do all count as income for tax purposes. So does investment income, such as interest on your savings account, and dividends.

The law allows you to subtract certain amounts from your total income before you figure the tax due on it. These include the **personal exemption** (if you are entitled to claim one) and the **standard deduction** (or itemized deductions if you can itemize). These amounts are explained later. What remains is your **taxable income**.

Tax rates. Your tax will be a percentage of your **taxable income**. There are two basic tax rates, 15% and 28%. Assuming your taxable income is not more than $19,450 for 1990, your tax is the amount of your taxable income times 15% (.15). The 28% rate applies to any income you had over $19,450. You do not make these computations yourself; the math has been done for you in the tax tables that are included in the instructions to the tax forms.

How Do I Pay My Taxes?

Federal income and social security taxes are collected on a "pay-as-you-go" system. This means you must pay taxes on the income you earn at the time you earn it. Generally, depending on whether you are an employee or self-employed, there are two ways to pay your tax as you go: you can have tax withheld on your wages or you can make estimated tax payments.

Withholding on wages. Usually your employer "withholds" or takes out taxes from your paychecks during the year and deposits them in a federal bank. By the end of the year, you should have paid all or almost all of the income tax due on your yearly income. If you haven't, you may have to pay a penalty. It's easier to have taxes withheld during the year. That way, you probably will not have a big tax bill when you file your return.

Estimated tax payments. If you work for yourself, you won't have an employer to withhold taxes from your self-employment income. Therefore, you may need to make estimated tax payments on this income.

Generally, the law requires you to pay estimated tax for 1991 if you expect to owe $500 or more when you file your return unless the amount you will have withheld is at least:

1) 90 percent of the tax to be shown on your 1991 income tax return, or
2) 100 percent of the tax shown on your 1990 income tax return.

If you need to make estimated tax payments, get **Form 1040–ES,** *Estimated Tax for Individuals.* It has a worksheet and instructions that will help you estimate your income for the coming year and figure how much tax you will owe. Usually you divide the amount you expect to owe for the year by four and make four equal payments of tax. These are due on April 15, 1991; June 17, 1991; September 16, 1991; and January 15, 1992.

How Does My Employer Decide How Much To Withhold?

You tell your employer how much to withhold. When you get a job, one of the first things your employer will do is ask you to complete **Form W–4,** *Employee's Withholding Allowance Certificate.* The form and its worksheets will help you decide how many **withholding allowances** to claim. Each allowance that you can claim lowers the amount of tax that your employer will withhold from your pay.

You should claim all the allowances you are entitled to claim. That way your withholding will come as close to your actual tax liability as possible. For many students, this will be just one allowance. You can claim zero allowances if you want more tax withheld.

You want to have enough tax withheld so you won't have to make estimated tax payments as explained above. For example, if you have interest or dividend income, you may want to adjust your withholding so that enough tax will be withheld. Otherwise, you may be charged a penalty for not paying enough tax during the year. But you don't want to have too much withheld either. Getting a big refund at the end of the year may seem like a great way to save money, but actually you're losing money because the IRS generally doesn't pay interest on the tax withheld during the year.

More than one employer. If, like some students, you work for more than one employer at a time, you will be asked to complete a Form W–4 by each employer. If, after reading the Form W–4 worksheet, you decide you are entitled to claim one allowance, claim one allowance at one job and zero allowances at your other job. Be sure not to claim the same withholding allowances at both jobs because not enough tax will be withheld during the year.

A filled-in example of Form W–4 appears at the end of this publication.

Will I Owe More Than the Tax My Employer Withholds?

Your withholding won't match your tax exactly. So when you report your income and figure the tax on your tax return for the year, you will usually have underpaid or overpaid your tax. If you still owe more, you pay the balance due with your return when you file after the end of the year. If you paid too much, the IRS will send you a refund check after you file your return.

May I Ask My Employer Not To Withhold Tax?

As a student, perhaps you have a part-time job but are not earning enough to be required to file a tax return. You may ask your employer not to withhold tax (claim

exemption from withholding) if you meet all three tests below.

1) You had no tax liability last year,
2) You expect no tax liability this year, and
3) If your income is more than $550 and includes nonwage income, your parent or another person cannot claim you as a dependent.

Students are not automatically exempt from withholding.

You claim exemption from withholding on Form W–4. Fill in the identifying information at the top of the form and skip lines 4 and 5. On line 6 write the year for which you are claiming exemption and the word "EXEMPT" next to the year.

The exemption from withholding is only good for one year. If you want to claim exemption from withholding again next year, you must give your employer another Form W–4 by February 15. If you do not expect to be exempt next year, give your employer a new Form W–4 to claim the correct number of withholding allowances so your employer will withhold the right tax.

If you are not required to file a return, and income tax was withheld from your pay because you did not claim exemption from withholding, you will be entitled to a refund of all the income tax withheld. But you must file a tax return to get it, even though you would not be required to file otherwise.

Must I File a Return?

You are not required to file an income tax return if your income for the year was $500 or less. If you were self-employed, see *Income from self-employment*, later.

If your income was more than $500, whether you must file a tax return depends on:

- Whether your parent or someone else can claim you as a "dependent" on his or her tax return (regardless of whether or not that person actually claims you),
- How much income you received, and
- What kind of income you received.

Dependent. Your parent (or someone else who is related to you or is a member of your household) can generally claim you as a dependent if he or she provides more than half of your support for the year.

Support includes amounts spent for food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities. Scholarships and fellowships are not considered in figuring support.

If you can be claimed as a dependent, the following chart shows whether you must file a return.

You must file a return if— your investment income was:	AND the total of that income plus wages, tips, and other earned income* was:
$1 or more	more than $500
$0	more than $3,250

*Includes any part of a taxable scholarship or fellowship grant that you must include in your income, as explained later under *What Kinds of Income Are Taxable?*

If you are under age 14 and have more than $1,000 of investment income, special rules apply. See Publication 929, *Tax Rules for Children and Dependents.*

If you cannot be claimed as a dependent by someone else, you must file a return if your gross income for the year was $5,300 or more.

Income from self-employment. Regardless of whether or not you can be claimed as a dependent, you must also file a return if your net earnings from self-employment were $400 or more. This means, for example, that if you earned $400 from mowing lawns during the summer after subtracting your expenses of the business, you must file a tax return. Your gross receipts from self-employment are counted in meeting your gross income for purposes of the filing requirements.

What Kinds of Income Are Taxable?

The following kinds of income often received by students are generally taxable:

- Pay for services performed
- Self-employment income
- Investment income
- Taxable scholarships and fellowships

Pay for Services Performed

When figuring how much income to report, include everything you received as payment for your services. This usually means wages, salaries, and tips.

Wages and salaries. The amount of wages or salaries you received during the year will be shown in Box 10 of **Form W–2,** *Wage and Tax Statement,* that your employer will give you at the end of the year.

Tips. All tips you get are subject to income tax. This includes tips customers gave you, tips customers charged on credit cards, and your share of tips split with other employees.

Keeping a record. Keep a daily record or other proof of your tips. You can use **Form 4070–A,** *Employee's Daily Record of Tips.* Your record must show your name, address, and employer's name. It must also show, for each workday, your cash and charge tips, tips you split with other employees, and the employees' names. Record this information on or near the date you receive the tip income.

Reporting tips to your employer. If you receive tips of $20 or more in a month while working for one employer, you must report the total amount of your tips to your employer by the 10th day of the next month. Usually your report should cover one month. However, if your employer asks you to report tips more often, you must do so.

You can use **Form 4070,** *Employee's Report of Tips to Employer,* for this report. If you do not use Form 4070, make sure any other statement you give your employer shows your name, address, and social security number, your employer's name and address, amount of tips, period covered, your signature, and the date.

Where to get Forms 4070 and 4070–A. If your employer does not have these forms, call toll-free 1–800–829–3676 and ask for Publication 531, *Reporting Income From Tips,* and Publication 1244, *Employee's Daily Record of Tips and Employee's Report of Tips to Employer,* which includes both forms.

Withholding on tips. Your employer must withhold social security tax and any income tax due on the tips you get. Your employer usually deducts the withholding due on tips from your wages. If your wages are too small for your employer to withhold the taxes due on your tips, you may give your employer extra money to pay these taxes. Your employer will tell you how much is needed.

Form W–2. The tips you reported to your employer will be included with your wages in Box 10 of Form W-2. Federal income tax and social security tax withheld on your wages and tips will be shown in Boxes 9 and 11.

If you worked for a large food and beverage establishment, your Form W–2 may show an amount in Box 7, "Allocated tips". This amount is the difference between the amount of tips you reported to your employer and the amount expected to be earned by employees where you work. The expected amount was determined by your employer based on certain guidelines, which take into consideration receipts of the establishment and other factors.

You should include the additional tip amount from Box 7 in your income unless you have records showing that you did not earn that amount.

Penalty. If you do not report tips to your employer as required, you may be charged a penalty in addition to the tax you owe. Therefore, if you did not report tips to your employer, you should attach a statement to your return explaining why you did not.

Self-Employment Income

Earnings you received from self-employment are taxable. This includes income you received for babysitting and lawn mowing, unless you are providing these services as an employee. It may include other income you receive from work you do independently.

You are taxed on the income you got minus any business expenses you are allowed to deduct. Since you do not have an employer, you are responsible for keeping records to show how much money you received and how much you spent. The income and expenses are reported on Schedule C (Form 1040). A filled-in example of Schedule C appears at the end of this publication.

Self-employment tax. If you earned $400 or more from self-employment, you will also have to pay self-employment tax. This tax pays for your benefits under the social security system. Social security benefits are available to individuals who are self-employed just as they are to wage earners who have social security tax withheld from their wages by their employers. The self-employment tax is figured on **Schedule SE** (Form 1040).

Newspaper carriers age 18 and over must pay self-employment tax if their net earnings were $400 or more. However, newspaper carriers under 18 do not pay self-employment tax.

Investment Income

Interest. Interest you get from checking and savings accounts and most other sources is taxable.

Some credit unions, building and loan associations, savings and loan associations, mutual savings banks, and cooperative banks call what they pay you on your deposits "dividends." However, for tax purposes these payments are considered interest and you should report them as interest.

U.S. Savings Bonds. Interest on U.S. Savings Bonds is taxable for federal income tax purposes, but is exempt from all state and local income taxes. The most common type bonds are Series EE bonds. These are issued in several different denominations and cost one-half the amount shown on the face of the bond. For example, a $100 bond costs $50. These begin earning interest after you have held them for 6 months. The difference between what you paid for them and the amount you get when you cash them is taxable interest. You may report all interest on these bonds when you cash them, or you may elect to report their increase in value as interest each year. Publication 550, *Investment Income and Expenses,* explains how to make this election. The face value of the bond is paid only when the bond matures.

Under certain circumstances, the interest on Series EE bonds issued after 1989 is exempt from tax if used for educational purposes. See Publication 550 for further information.

Other interest from the U.S. Government. Interest on U.S. Treasury bills, notes, etc., issued by an agency of the United States, is taxable for federal income tax purposes, but is exempt from all state and local income taxes.

Interest statements. Your bank, savings and loan, or other payer of interest will send you a statement showing your interest if you earned at least $10 for the year. You should receive these statements sometime in January after the end of the tax year. Banks may use IRS's official Form 1099–INT, *Statement for Recipients of Interest Income.* However, they may also include your total interest figure on their own statements they send you at the end of the year, so be careful not to throw these statements away when you receive them.

Dividends. Dividends are distributions of money, stock, or other property paid to you by a corporation. You may also get dividends through a partnership, an estate, a trust, or an association that is taxed as a corporation. You must report these as income on your tax return. The most common type, called ordinary dividends, are those the corporation pays to you out of its earnings.

Reinvested dividends. Many corporations have dividend reinvestment plans. You can choose to reinvest your dividends by buying more shares of stock in the corporation rather than receiving the dividends in cash. If you reinvest your dividends in this way, you must report them as income even though they are not paid to you in cash.

Dividend statements. Regardless of whether you receive your dividends in cash or additional shares of stock, the payer of the dividends will send you a Form 1099–DIV showing the amount of your dividends if you earned at least $10 for the year.

Taxable Scholarships and Fellowships

If you received a scholarship or fellowship, part of it may be taxable.

How much of your scholarship or fellowship grant is taxable depends on when it was granted. If your scholarship or fellowship was granted **after August 16, 1986,** the entire amount is taxable if you are not a candidate for a degree.

If you are a candidate for a degree, you may generally exclude from income that part of the grant used for:

- ***Tuition and fees*** required for enrollment or attendance, or
- ***Fees, books, supplies, and equipment*** required for your courses.

You may not exclude from income any part of the grant used for room and board or personal items.

A **scholarship** generally is an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies, either graduate or undergraduate.

A **fellowship** grant generally is an amount paid or allowed to, or for the benefit of, an individual to aid in the pursuit of study or research.

Payment for services. All payments you receive for services must be included in income even if the services are a condition of receiving the grant or are required of all candidates for the degree.

Reserve Officers' Training Corps (ROTC). Educational assistance benefits, such as tuition, fees, and books, provided to inactive military reserve members are not taxable. Neither are subsistence allowances paid to students participating in the advanced course or paid to scholarship recipients. However, active duty pay, such as that received during summer advanced camp, is taxable.

Fulbright students and researchers. Generally, you may exclude from income a Fulbright grant you receive for **study or research**. This kind of Fulbright grant is subject to the same limits as any other scholarship or fellowship in figuring how much of the grant can be excluded. If you receive a Fulbright grant for **lecturing or teaching,** it is payment for services and is subject to tax.

Federal grants. Payments received under certain government programs qualify as scholarships or fellowships. However, those requiring past, present, or future services with the federal government may not be excluded unless granted before August 17, 1986. Federal grants are subject to the same rules as other grants in figuring the amount that can be excluded.

Reduced tuition. If you are entitled to reduced tuition because you or one of your parents is or was an employee of the school, the amount of the reduction is not taxable as long as the tuition is for education below the graduate level and the reduced tuition program does not favor any highly paid employee. See Publication 520, *Scholarships and Fellowships,* for more information on qualified tuition reduction.

Scholarship prizes won in a contest are not scholarships or fellowships if you do not have to use the prizes for your education. If you can use the prize for any purpose, the entire amount is taxable.

Other grants or assistance. If you are not sure whether your grant qualifies as a scholarship or fellowship, ask the person who made the grant.

Example 1. On January 9, 1990, Gary Thomas is notified of a scholarship of $2,500 for the spring 1990 semester. As a condition of receiving the scholarship, Gary must serve as a part-time teaching assistant. Of the $2,500 scholarship, $1,000 represents payment for his services. Assuming that all other conditions are met, Gary would be allowed to exclude $1,500 from income as a qualified scholarship. The remaining $1,000 is taxable.

Example 2. On May 16, 1990, Tammy Graves is notified of a fellowship to begin July 1, 1990. The grant provides $6,000 that is not designated for any specific use. She spends $5,500 for tuition and $500 for her personal expenses. Tammy is required to include $500 in income.

Example 3. Ursula Harris is notified of a scholarship to begin June 15, 1990. She will receive $1,000 specifically designated for tuition and $1,000 specifically designated for living expenses. Her tuition is $1,600. She may exclude $1,000 from income but the other $1,000 designated for living expenses is taxable and must be included in income.

Example 4. Jim Hunter is a member of the ROTC who is participating in the advanced course. He received a subsistence allowance of $100/month for 10 months, and $600 of active duty pay during summer advance camp. Only the $600 active duty pay is includible in his gross income.

If the scholarship or fellowship was granted on or before August 16, 1986, different rules apply. Contact the IRS for more information.

Other Income

If you are not sure whether to include any item of income on your return, see Publication 525, *Taxable and Nontaxable Income.*

What Can I Deduct On My Return?

After you have added up your income, you are allowed to subtract (deduct) certain amounts to arrive at taxable income before figuring your tax.

Standard deduction. Most taxpayers are entitled to deduct a certain amount called the standard deduction. This amount is set by law and increases each year.

If your parent or someone else can claim you as a dependent, your standard deduction is the greater of:

1) $500, or

2) Your earned income (income you received for work you did) for the year, but not more than $3,250.

If no one can claim you as a dependent, you can subtract a standard deduction of $3,250.

Itemized deductions. Some taxpayers have high medical bills, pay a lot of mortgage interest or state and local income taxes, or contribute large amounts to charity. If these expenses add up to more than the amount of the standard deduction, the law allows you to claim the higher total instead of the standard deduction. To do this, though, you must list (itemize) all your deductible expenses on Schedule A (Form 1040). As a student, you probably do not have these kinds of expenses yet and so will not itemize. But keep this concept in mind for future years when it may apply.

Exemptions. Generally each taxpayer can subtract from income his or her own **personal exemption**. This amount is set by law and generally increases each year. However, students who could be claimed as dependents by parents or others who provide most of their support are not entitled to a personal exemption. But those who cannot be claimed as dependents by someone else can subtract a personal exemption of $2,050 for 1990.

How Do I File A Return?

Tax return forms. You can probably use the shortest, simplest form, Form 1040EZ, *Income Tax Return for Single Filers With No Dependents*. You can get it from your local IRS office, bank, post office, and library. Or call 1–800–829–3676. After you have filed your first return, the IRS will send you blank tax forms after December 25 each year.

Some students may not be able to file Form 1040EZ and may have to file one of the longer forms, Form 1040A or Form 1040, instead. You cannot file Form 1040EZ if your income includes more than $400 of interest, any amount of dividends, or any income from self-employment. And you cannot file Form 1040EZ if you are reporting any allocated tips, or if you itemize deductions as explained earlier.

Income statements. In January, each of your employers should give you a Form W–2. It will show the amount of wages you were paid during the year and how much tax (both income and social security) was withheld. Your bank will send you Form 1099–INT or a similar statement showing the interest you earned during the year.

If you don't receive Form W–2 by January 31, ask your employer for it. If he or she doesn't give it to you by February 15, call the IRS toll-free telephone number for your area that is listed in the back of the tax form instructions.

If you don't receive your Forms 1099–INT or other statements from your bank by January 31, call your bank and ask for them.

Putting your return together. After you have received all your wage and other income statements, and you have the correct tax form and instructions, you are ready to complete your return.

Form 1040EZ is only 9 lines long on the front of a single page. The booklet, *Instructions for Form 1040EZ* contains instructions for each line. A filled-in example of Form 1040EZ is in the back of this publication.

Basically all you do is fill in your name, address, and social security number, and enter your total income for the year (from your Forms W–2 and 1099–INT). From that adjusted gross income amount you subtract the amount of your standard deduction, and your personal exemption if you can claim one. Then you find the tax on the remaining amount (taxable income) in the table in the back of the instructions for the form.

Compare the amount of tax shown in the table to the tax your employer withheld. If the amount your employer withheld is larger, the difference between the two amounts is your refund. If your tax is more than the amount your employer withheld, the difference is what you owe. If you owe more tax at the end of the year, you must attach a check or money order for the amount due on your return.

Attach Copy B of all your Forms W–2 to your return. Do not attach Forms 1099–INT, but keep them for your records. Make a copy of your return before you mail it. Keep it in a safe place with the other copies of your Forms W–2 and your Forms 1099–INT.

Due date of return. If you are required to file a tax return for 1990, you must file it with IRS by April 15, 1991.

Penalties. There are penalties for filing your return late and for paying the tax late. And if you pay your taxes late, you will also be charged interest on the amount you owe.

What Tax Records Should I Keep?

As mentioned earlier, you should make and keep a copy of your tax return form. Keep Copy C of all Forms W–2 and any other information you filed with the return. You generally should keep these records for three years from the date the return was due or filed, or two years from the date you paid the tax, whichever is later.

When Will I Get My Refund?

If your return shows that IRS owes you a refund, you should receive it within about 8 weeks of filing your return. But if you don't receive it by then, you can call IRS and check the status of your refund. Check your phone book for the toll-free number for IRS in your area. Be sure to have ready your social security number, your filing status, and the exact amount of refund shown on the return you filed.

What Free Tax Help Is Available?

Most of your tax questions can be answered by reading the tax form instructions or one of our free publications. IRS representatives are also available to help you with your tax questions. If, after reading the tax form

instructions and our tax publications, you are not sure how to fill out your return, call or visit the IRS.

Telephone service. To get answers to your questions, you can call IRS toll-free. Check your phone book for the number in your area.

Tele-Tax. This is a service you can reach by phone that gives automated refund information and recorded tax information. Recorded tax information is available on about 140 topics. Telephone numbers, topics, and instructions on how to use Tele-Tax are in the tax forms package.

Walk-in service. Assistors in IRS offices will "walk through" a return with you in a group setting. If you want help, bring your Forms W–2, your 1099 forms showing interest or other income, and any other helpful information.

Other free publications. IRS provides many other publications on a variety of specific tax topics. A list of these appear at the end of this booklet. You can use the order blank on that page to request forms and publications.

Sample Tax Forms

Preparing the various tax forms may look difficult, but really is not. If you follow the forms line-by-line and refer to the instructions when necessary, you should be able to complete the forms easily. On the next few pages are examples of Form W–4, Form 1040EZ, and Schedule C that you can use as a guide. And don't forget, if you have any questions, you can call the IRS.

Filled-in Form W–4

Rachel Smith is a sophomore at City College. Her parents pay most of her college costs, including living expenses, and claim her as a dependent on their tax return. This year Rachel has a job as a cashier at the ABC Department Store to help her parents with the expenses.

Rachel estimates that she'll earn about $720 during the school year and about $2,920 during the summer. Also, she usually earns about $50 a year in interest on checking and savings accounts at a local bank. Her total income will be about $3,690.

On Rachel's first day of work, her boss gives her Form W–4 to fill in. Her completed Form W–4 is shown later.

She begins with the *Personal Allowances Worksheet.*

Line A. Since Rachel's parents can claim her as a dependent, she cannot claim an allowance for herself. So she leaves line A blank.

Line B. Since she is single and has only one job, she can enter "1" on line B.

She leaves lines C and D blank since she has no spouse or dependents. After reading the information under "Head of Household" in the instructions at the top of the form, Rachel realizes that she cannot claim head of household filing status, so also leaves line E blank. She also leaves line F blank since she has no child or dependent care expenses.

Line G. She adds lines A through F and enters the total of her allowances (1) in the entry space.

Rachel reads the bulleted items under line G and finds that neither the first nor the second item applies to her. Following the instruction for the third bulleted item, she enters the "1" from line G of the worksheet on line 4 of Form W–4. She fills in the identifying information at the top of the form and marks the "Single" box to show her marital status in item 3.

Rachel leaves line 5 blank since she does not want any additional amount (beyond what claiming "1" allowance will provide) withheld from her wages.

She reads through the bulleted items under line 6 and sees that she does not qualify to claim exemption from withholding. She had a right to have all federal tax withheld last year refunded to her since she had no tax liability. But she expects to have a tax liability this year since her income will be more than $500 and includes some nonwage income (her interest), and her parents can claim her as a dependent. Since she cannot claim exemption from withholding, she leaves line 6 blank.

She checks the "Yes" box on line 7 to indicate that she is a full–time student and signs and dates the form at the bottom. Boxes 8, 9, and 10 are left blank. These are for the employer's use if needed.

Filled-in Form 1040EZ

Pat Brown is single and has no dependents. She is 22 years old and a full-time student at State University where she has a scholarship that covers her tuition and $500 of her room and board. Her parents are able to claim her as a dependent. Her Form W–2 (not illustrated) shows she earned $1,850 in wages and had $250 in federal tax withheld during 1990. She also received a Form 1099–INT showing she had $277 in interest income for 1990. She files Form 1040EZ as explained below.

Name & Address

Pat prints her name, address, and social security number in the appropriate boxes.

Presidential Election Campaign Fund. Pat wants one dollar of her taxes to go to this fund, so she checks the "Yes" box. Checking "Yes" will not change her tax or reduce her refund.

Report Your Income

Pat has two items of income which must be combined and entered on line 1 of Form 1040EZ. The part of her scholarship that is for room and board ($500) is taxable. She adds this amount to the wages ($1,850) shown in Box 10 of her Form W–2. Pat enters the total ($2,350) on line 1. On line 2, she enters her interest income of $277. She adds her wages, taxable scholarship, and interest together to figure her adjusted gross income of $2,627. She enters $2,627 on line 3.

Standard Deduction and Personal Exemption

Since Pat can be claimed as a dependent by her parents, she checks the "Yes" box on line 4. She uses the worksheet on the back of her Form 1040EZ to figure her standard deduction. Her completed worksheet is shown below. She enters the result ($2,350) on line 4.

A.	Enter the amount from line 1 on front.	A. 2,350
B.	Minimum amount.	B. 500
C.	**Compare** the amounts on lines A and B above. Enter the **LARGER** of the two amounts here.	C. 2,350
D.	Maximum amount.	D. 3,250
E.	**Compare** the amounts on lines C and D above. Enter the **SMALLER** of the two amounts here and on line 4 on front.	E. 2,350

Because Pat checked the "Yes" box on line 4 to indicate that her parents can claim her as a dependent on their own tax return, she cannot claim an exemption for herself.

Pat subtracts line 4 ($2,350) from line 3 ($2,627) and enters the result of $277 on line 5. This amount is Pat's taxable income. She will figure her income tax on this amount.

Note. If Pat could not be claimed as a dependent by her parents or someone else, she would have a standard deduction amount of $3,250 and a personal exemption of $2,050.

Figure Your Tax

Pat had $250 of federal income tax withheld from her wages by her employer. She found this amount in Box 9 of her 1990 Form W–2. She enters this amount on line 6 of Form 1040EZ.

If Pat wanted the IRS to compute her tax for her, she would stop at this point. She would make sure lines 1 through 6 were accurately completed, then she would sign and date the return.

Pat decides to compute her tax by herself. She takes the amount on line 5, her taxable income of $277, and goes to the Tax Table in Section 3 of the Form 1040EZ instructions. She reads down the income column of the Tax Table until she finds the line that includes her taxable income shown on line 5 of her Form 1040EZ. She then reads across the line to the tax column to find her tax ($43). She enters this amount of tax on line 7 of her Form 1040EZ.

Refund or Amount You Owe

Pat compares line 6 and line 7. Since line 6 is larger, she subtracts line 7 ($43) from line 6 ($250) to arrive at her refund of $207. She enters this amount on line 8. Pat will receive a tax refund of $207.

If her employer had not withheld any federal income tax from her wages, Pat would have owed $43 in income tax. She would have been instructed to enter that amount on line 9. She would then attach a check or money order for the full amount of $43 payable to "Internal Revenue Service." She would write on the front of her check or money order:

"1990 Form 1040EZ,"
Her name,
Her social security number,
Her daytime telephone number, and
Her address.

Sign Your Return

Pat should check her return to make sure that she entered the numbers clearly and correctly and that her math is correct.

Pat signs and dates her return at the bottom of the form. She attaches Copy B of her Form W–2 where indicated on the front of Form 1040EZ.

She makes a copy of her filled–in tax return for her records. Then she mails her return to the appropriate service center as indicated in her forms package.

Filled–in Schedule C

Stephen Burke is a high school student. During the summer of 1990, he mowed lawns and did other landscaping work for some of his neighbors. He used his father's tools and paid for gas and oil used in his business.

Stephen kept good records that showed he earned $750 and spent $40 on gas and oil. Since his income minus business expenses is more than $400, he must file Form 1040 and Schedule C even if this was his only income.

Stephen enters the required information at the top of Schedule C.

Part I is where income is reported. All the money he received (including tips, if any) is shown on line 1 and carried forward to line 7.

Part II is where the expenses are reported. Stephen deducts the $40 for gas and oil on line 27. For information on what expenses can be deducted, see Publication 535, *Business Expenses.*

Line 29 shows the net profit from the business that is subject to tax. Stephen must include $710 on Form 1040, line 12. Since his **net** earnings from self-employment are more than $400, he must also complete Schedule SE to compute his self-employment tax.

Form 1040 and Schedule SE are not shown here. For more information on self-employment tax, see Publication 533, *Self-Employment Tax.*

1991 Form W-4

Department of the Treasury
Internal Revenue Service

Purpose. Complete Form W-4 so that your employer can withhold the correct amount of Federal income tax from your pay.

Exemption From Withholding. Read line 6 of the certificate below to see if you can claim exempt status. *If exempt, complete line 6; but do not complete lines 4 and 5.* No Federal income tax will be withheld from your pay. Your exemption is good for one year only. It expires February 15, 1992.

Basic Instructions. Employees who are not exempt should complete the Personal Allowances Worksheet. Additional worksheets are provided on page 2 for employees to adjust their withholding allowances based on itemized deductions, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply to your situation. The worksheets will help you figure the number of withholding allowances you are entitled to claim. However, you may claim fewer allowances than this.

Head of Household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals.

Nonwage Income. If you have a large amount of nonwage income, such as interest or dividends, you should consider making estimated tax payments using Form 1040-ES. Otherwise, you may find that you owe additional tax at the end of the year.

Two-Earner/Two-Jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. This total should be divided among all jobs. Your withholding will usually be most accurate when all allowances are claimed on the W-4 filed for the highest paying job and zero allowances are claimed for the others.

Advance Earned Income Credit. If you are eligible for this credit, you can receive it added to your paycheck throughout the year. For details, get Form W-5 from your employer.

Check Your Withholding. After your W-4 takes effect, you can use **Pub. 919,** Is My Withholding Correct for 1991?, to see how the dollar amount you are having withheld compares to your estimated total annual tax. Call 1-800-829-3676 to order this publication. Check your local telephone directory for the IRS assistance number if you need further help.

Personal Allowances Worksheet

For 1991, the value of your personal exemption(s) is reduced if your income is over $100,000 ($150,000 if married filing jointly, $125,000 if head of household, or $75,000 if married filing separately). Get Pub. 919 for details.

A	Enter "1" for **yourself** if no one else can claim you as a dependent	A ____
B	Enter "1" if: 1. You are single and have only one job; or 2. You are married, have only one job, and your spouse does not work; or 3. Your wages from a second job or your spouse's wages (or the total of both) are $1,000 or less.	B 1
C	Enter "1" for your **spouse.** But, you may choose to enter "0" if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld)	C ____
D	Enter number of **dependents** (other than your spouse or yourself) whom you will claim on your tax return	D ____
E	Enter "1" if you will file as **head of household** on your tax return (see conditions under "Head of Household," above)	E ____
F	Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit	F ____
G	Add lines A through F and enter total here	▶ G 1

For accuracy, do all worksheets that apply.

- If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed $27,000 OR if you are **married** and have a **working spouse or more than one job,** and the combined earnings from all jobs exceed $46,000, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line G on line 4 of Form W-4 below.

---------- **Cut here and give the certificate to your employer. Keep the top portion for your records.** ----------

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see reverse.**

OMB No. 1545-0010
1991

1 Type or print your first name and middle initial: Rachel S.
Last name: Smith
2 Your social security number: 123-00-6543

Home address (number and street or rural route): 37 Northview Rd.
City or town, state, and ZIP code: Little Rock, AR 72290

3 Marital status: ☒ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*

4 Total number of allowances you are claiming (from line G above or from the Worksheets on back if they apply) . . . 4 1

5 Additional amount, if any, you want deducted from each pay . . . 5 $

6 I claim exemption from withholding and I certify that I meet **ALL** of the following conditions for exemption:
- Last year I had a right to a refund of **ALL** Federal income tax withheld because I had **NO** tax liability; **AND**
- This year I expect a refund of **ALL** Federal income tax withheld because I expect to have **NO** tax liability; **AND**
- This year if my income exceeds $550 and includes nonwage income, another person cannot claim me as a dependent.

If you meet all of the above conditions, enter the year effective and "EXEMPT" here . . . ▶ 6 19

7 Are you a full-time student? (**Note:** *Full-time students are not automatically exempt.*) . . . 7 ☒ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.

Employee's signature ▶ Rachel S. Smith **Date** ▶ 3/4 , 19 91

8 Employer's name and address (**Employer:** Complete 8 and 10 **only if sending to IRS**)

9 Office code (optional)

10 Employer identification number

Form **1040EZ**

Department of the Treasury · Internal Revenue Service

Income Tax Return for Single Filers With No Dependents 1990

OMB No. 1545-0675

Name & address

Use IRS label (see page 9). If you don't have one, please print.

LABEL HERE

Print your name (first, initial, last): Pat Brown

Home address (number and street). (If you have a P.O. box, see page 9.): 10 Main Street — Apt. no.:

City, town or post office, state, and ZIP code. (If you have a foreign address, see page 9.): Anytown, NY 11300

Please print your numbers like this: 9 8 7 6 5 4 3 2 1 0

Your social security number: 123 00 5465

Please see instructions on the back. Also, see the Form 1040EZ booklet.

Presidential Election Campaign (see page 9) Do you want $1 to go to this fund? Note: *Checking "Yes" will not change your tax or reduce your refund.* ▶

	Yes	No
	☒	☐

	Dollars	Cents
Report your income		
1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1	2,350	00
Attach Copy B of Form(s) W-2 here. Attach tax payment on top of Form(s) W-2. 2 Taxable interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2	277	00
3 Add line 1 and line 2. This is your **adjusted gross income.** 3	2,627	00
Note: You must check Yes or No. 4 Can your parents (or someone else) claim you on their return? ☒ **Yes.** Do worksheet on back; enter amount from line E here. ☐ **No.** Enter 5,300.00. This is the total of your standard deduction and personal exemption. 4	2,350	00
5 Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your **taxable income.** 5	277	00
Figure your tax 6 Enter your Federal income tax withheld from Box 9 of your W-2 form(s). 6	250	00
7 **Tax.** Use the amount on **line 5** to find your tax in the tax table on pages 14-16 of the booklet. Enter the tax from the table on this line. 7	43	00
Refund or amount you owe 8 If line 6 is larger than line 7, subtract line 7 from line 6. This is your **refund.** 8	207	00
9 If line 7 is larger than line 6, subtract line 6 from line 7. This is the **amount you owe.** Attach your payment for full amount payable to "Internal Revenue Service." Write your name, address, social security number, daytime phone number, and "1990 Form 1040EZ" on it. 9		

Sign your return

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Keep a copy of this form for your records.

Your signature: x Pat A. Brown — Date: 2-15-91

For IRS Use Only—Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 4 in the booklet. Form 1040EZ (1990)

SCHEDULE C (Form 1040)

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)

Partnerships, Joint Ventures, Etc., Must File Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

1990

Attachment Sequence No. 09

Name of proprietor: Stephen Burke

Social security number (SSN): 123 00 4567

A Principal business or profession, including product or service (see Instructions): Landscaping

B Enter principal business code (from page 2) ▶ 2212

C Business name and address (include suite or room no.) ▶

D Employer ID number (Not SSN)

E Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

F Method(s) used to value closing inventory: (1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation) (4) ☒ Does not apply (if checked, go to line H)

		Yes	No
G	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? (If "Yes," attach explanation.)		X
H	Are you deducting expenses for business use of your home? (If "Yes," see Instructions for limitations.)	X	
I	Did you "materially participate" in the operation of this business during 1990? (If "No," see Instructions for limitations on losses.)		
J	If this is the first Schedule C filed for this business, check here ▶ ☐		

Part I Income

1	Gross receipts or sales. *Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see the Instructions and check here* ▶ ☐	1	750	00
2	Returns and allowances	2		
3	Subtract line 2 from line 1. Enter the result here	3	750	00
4	Cost of goods sold (from line 38 on page 2)	4		
5	Subtract line 4 from line 3 and enter the **gross profit** here	5	750	00
6	Other income, including Federal and state gasoline or fuel tax credit or refund (see Instructions)	6		
7	Add lines 5 and 6. This is your **gross income** ▶	7	750	00

Part II Expenses

8	Advertising	8		21	Repairs and maintenance	21	
9	Bad debts from sales or services (see Instructions)	9		22	Supplies (not included in Part III)	22	
10	Car and truck expenses (attach Form 4562)	10		23	Taxes and licenses	23	
11	Commissions and fees	11		24	Travel, meals, and entertainment:		
12	Depletion	12		a	Travel	24a	
13	Depreciation and section 179 expense deduction (not included in Part III) (see Instructions)	13		b	Meals and entertainment		
14	Employee benefit programs (other than on line 19)	14		c	Enter 20% of line 24b subject to limitations (see Instructions)		
15	Insurance (other than health)	15		d	Subtract line 24c from line 24b	24d	
16	Interest:			25	Utilities	25	
a	Mortgage (paid to banks, etc.)	16a		26	Wages (less jobs credit)	26	
b	Other	16b		27a	Other expenses (**list type and amount**): Gas and oil $40		
17	Legal and professional services	17					
18	Office expense	18					
19	Pension and profit-sharing plans	19					
20	Rent or lease (see Instructions):						
a	Vehicles, machinery, and equip.	20a					
b	Other business property	20b		27b	Total other expenses	27b	40 00

28	Add amounts in columns for lines 8 through 27b. These are your **total expenses** ▶	28	40 00
29	**Net profit or (loss).** Subtract line 28 from line 7. If a profit, enter here and on Form 1040, line 12. Also enter the net profit on Schedule SE, line 2 (statutory employees, see Instructions). If a loss, you MUST go on to line 30 (fiduciaries, see Instructions)	29	710 00

30 If you have a loss, you MUST check the box that describes your investment in this activity (see Instructions).
If you checked 30a, enter the loss on Form 1040, line 12, and Schedule SE, line 2 (statutory employees, see Instructions). If you checked 30b, you MUST attach **Form 6198.**

30a ☐ All investment is at risk.
30b ☐ Some investment is not at risk.

How to Get IRS Forms and Publications

You can order tax forms and publications from the IRS Forms Distribution Center for your state at the address below. Or, if you prefer, you can photocopy tax forms from reproducible copies kept at many participating public libraries. In addition, many of these libraries have reference sets of IRS publications which you can read or copy.

If you are located in:	Send to "Forms Distribution Center" for your state
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming	Rancho Cordova, Ca. 95743-0001
Alabama, Arkansas, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Texas, Wisconsin	P.O. Box 9903, Bloomington, IL 61799
Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia	P.O. Box 25866, Richmond, VA 23289

Foreign Addresses—Taxpayers with mailing addresses in foreign countries should send their requests for forms and publications to: Forms Distribution Center, P.O. Box 25866, Richmond, VA 23289; Forms Distribution Center, Rancho Cordova, Ca. 95743-0001, whichever is closer.

Puerto Rico—Forms Distribution Center, P.O. Box 25866, Richmond, VA 23289

Virgin Islands—V.I. Bureau of Internal Revenue, Lockharts Garden, No. 1A, Charlotte Amalie, St. Thomas, VI 00802

Detach at This Line

Order blank—We will send you 2 copies of each form and 1 copy of each set of instructions or publication you circle. Please cut the order blank on the dotted line above and **be sure to print or type your name and address accurately on the bottom portion.** This will be the label used to return material to you. Enclose this order blank in your own envelope and address your envelope to the IRS address shown above for your state. To help reduce waste, please order only the forms, instructions, and publications you think you will need to prepare your return. Use the blank spaces to order items not listed. If you need more space, attach a separate sheet of paper listing the additional forms and publications you may need. Be sure to allow 2 weeks to receive your order.

1040	1040EZ	Schedule R (1040) & Instructions	2441 & Instructions	8582 & Instructions	Pub. 508	Pub. 553	
Instructions for 1040 & Schedules	Instructions for 1040EZ	Schedule SE (1040)	3468 & Instructions	8822	Pub. 521	Pub. 590	
1040A	Schedules A&B (1040)	1040-ES (1991)	3903 & Instructions	Pub. 1	Pub. 523	Pub. 910	
Instructions for 1040A, Sch. 1&2	Schedule C (1040)	1040X & Instructions	4562 & Instructions	Pub. 17	Pub. 525	Pub. 917	
Schedule 1 (1040A)	Schedule D (1040)	2106 & Instructions	4868	Pub. 334	Pub. 527	Pub. 929	
Schedule 2 (1040A)	Schedule E (1040)	2119 & Instructions	8283 & Instructions	Pub. 463	Pub. 529		
Schedule 3 (1040A) & Instructions	Schedule F (1040)	2210 & Instructions	8332	Pub. 505	Pub. 545		

Internal Revenue Service

Name
Number and street
City or town, State, and ZIP code

☆U.S. GOVERNMENT PRINTING OFFICE: 1990 517-015/27896